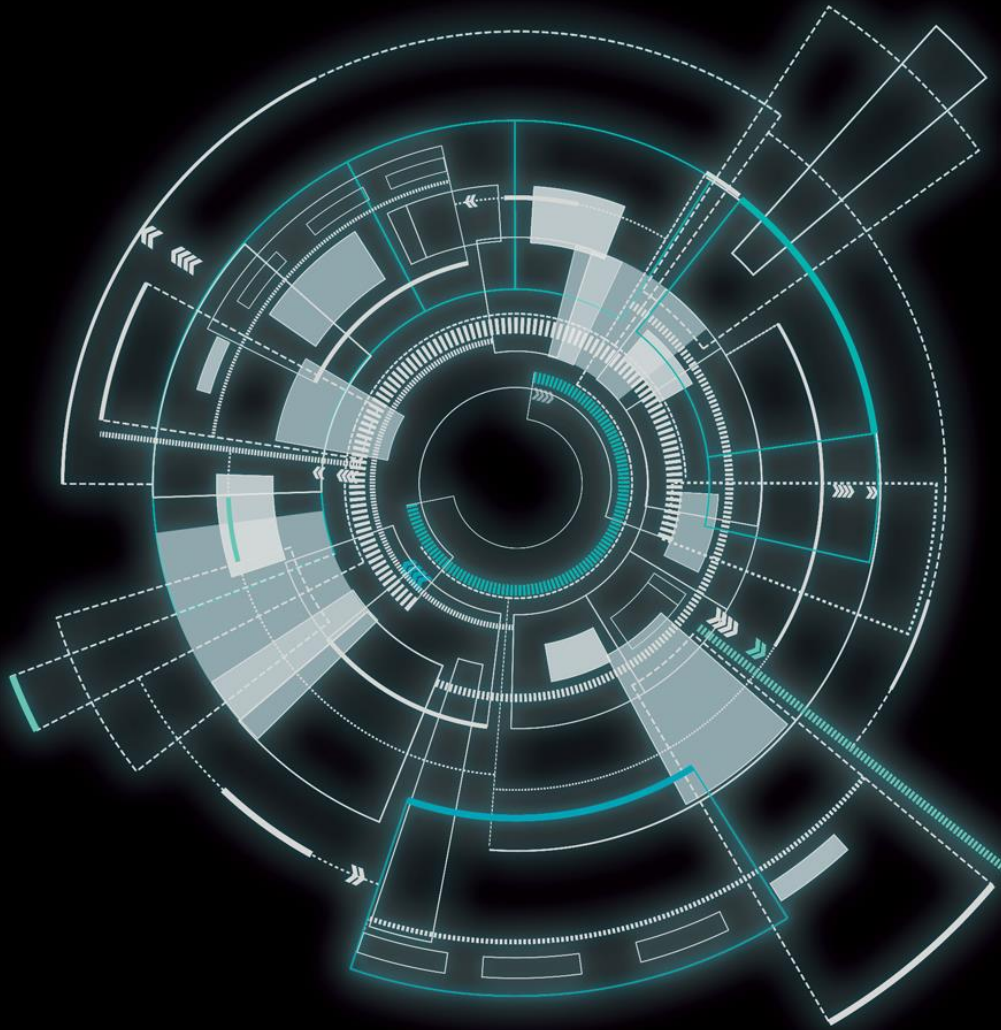


**Deloitte.**



**Deloitte Canada**  
Transparency report

August 2017

Deloitte Institute *for*  
**Audit Innovation  
and Quality**



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August 31, 2017

Dear reader,

At Deloitte LLP (Deloitte), our objective is to be the True Market Leader as measured by the markets we serve, the services we provide, the quality of the people who attract and who choose to build their careers with us, and—above all—the quality of our work.

In this report, we describe some of the principles, policies, standards and actions we have put in place as part of our efforts to continually enhance audit quality. We also annually publish our Audit Quality Report, which provides additional information on the philosophy and plans we are employing to establish ourselves as the market leader in audit quality.

We will continue to be vigilant in the face of new challenges and evolving regulatory expectations. Along the way, we will not waiver in our commitment with respect to audit quality.

Sincerely,

A handwritten signature in black ink, appearing to read "Frank Vettese". The signature is stylized and cursive.

**Frank Vettese**  
Managing Partner and Chief Executive  
Deloitte LLP

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# Introduction

## Quality and professional excellence

At Deloitte, our objective is to be the market leader that delivers unique value to our clients, continuously strives to perform at the highest levels and fulfills our public interest role in a distinctive and constructive way. Every member of our firm supports our ambition to be the market leader in audit quality and the investments that we must continue to make to realize this ambition.

Achieving this objective requires a deep and abiding commitment. At the most basic technical level, “audit quality” may be defined as completing an audit in accordance with the exacting standards that govern the auditing profession. For Canadian reporting issuers, these are the Canadian Auditing Standards as promulgated by Canada’s Auditing & Assurance Standards Board. For Securities and Exchange Commission (“SEC”) registered companies, the standards are set by the PCAOB. Both sets of standards are designed to ensure that auditors obtain sufficient appropriate evidence that the financial statements are in accordance with Generally Accepted Accounting Principles.

On a practical level, “audit quality” demands that an auditor has a thorough understanding of the entity’s business, its risks and the controls it has put in place to address those risks. This understanding shapes an auditor’s judgments about the nature and timing of audit evidence that should be gathered, and an auditor’s evaluation of the soundness of the company’s control environment.

From our perspective, attaining this type of advanced “audit quality” requires that we innovate our audit approach, methodology and tools at a rate that keeps us ahead of our clients’ own innovations. It also results in more robust, insightful dialogue with the audit committees of our clients.

Achieving audit quality requires an ongoing commitment; a permanent resolve to find ways to further evolve our practices and processes.

This report sets out the practices and processes that we currently employ, in accordance with the requirements of the European Union’s Directive on Statutory Audit 2006/43/EC<sup>1</sup>. Deloitte strives for professional excellence in the delivery of all of its professional services. This report focuses on the activities related to our Audit and Assurance practice in Canada, which is structured as three national service lines:



Continually advancing and becoming the market leader in audit quality are at the heart of our firm.

**Frank Vettese**  
Managing Partner and  
Chief Executive

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<sup>1</sup> Directive 2006/43/EC of the European Parliament of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC.

- (1) Audit Public, which is responsible for audit services to reporting issuers;
- (2) Audit Private, serving private companies, public sector and non-profit-organizations; and
- (3) Audit Advisory.

The discussions in this report pertain to all three-audit service lines, except the sections on managing the audit engagement, monitoring and inspections, which present policies and activities related primarily to our Audit Public service line.

# Directive 2006/43/EC



## Legal structure and ownership

Deloitte LLP (Deloitte Canada) is structured as a limited liability partnership pursuant to the laws of the Province of Ontario and is fully owned by Canadian equity partners. Each partner actively participates in Deloitte Canada's practice and activities, while an elected Board of Directors and a senior management team provide governance and leadership across the organization.

In its entirety, Deloitte is the nation's largest professional services firm, which provides audit, accounting, tax, consulting, and risk advisory and financial advisory services through over 9,900 people in 54 offices.

On April 1, 2015, Deloitte Canada entered into a Master Agreement with Deloitte Chile that provided for the common management and governance of the firms' businesses in Canada and Chile, with financial integration effective June 1, 2016 and governance integration completed by June 1, 2018. Under the Master Agreement, the firms have a single Board of Directors, single management team, and the firms are financially integrated between their equity partners. Services in both jurisdictions continue to be carried out in accordance with applicable professional standards.

## The Deloitte Network

Deloitte LLP is the Canada member firm of the Deloitte Network, which is comprised of all the member firms of Deloitte Touche Tohmatsu Limited (DTTL), a UK company limited by guarantee.

DTTL does not provide professional services to clients, nor does it direct, manage, control or own any interest in any member firm or in any member firm's affiliated entities. Member firms of the Deloitte Network provide services to clients, either directly or through their affiliates. The firms operate under the Deloitte brand and related names, including Deloitte, Deloitte and Touche, Deloitte Touche Tohmatsu and Tohmatsu.

Member firms provide professional services in particular geographic areas and are subject to the laws, regulations and professional requirements of the jurisdictions in which they operate. Each member firm is structured differently in accordance with national laws, regulations, customary practices and other factors.

Member firms are not subsidiaries or branch offices of DTTL, and they do not act as agents for DTTL or other member firms. Member firms are locally-formed entities with their own ownership structures that are independent of DTTL. Member firms have voluntarily joined the Deloitte Network to coordinate their approach to client service, professional standards, shared values, methodologies and systems of quality control and risk management. DTTL has adopted certain policies and protocols in each of these areas in an effort to establish a consistently high level of quality, professional conduct and service in all member firms. This structure's significant strength is that it combines high quality standards and methodologies with a deep understanding of local markets and a sense of responsibility and initiative among professionals who have a direct stake in the integrity and growth of their respective practices.

## Governance and firm leadership

### Senior leadership roles

Deloitte is led by an elected Chair and an elected Managing Partner and Chief Executive.

The **Chair** (who is independent of the Managing Partner and Chief Executive) leads the Board of Directors (the Board) in overseeing and governing all aspects of the practices, businesses, and affairs of the firm, in accordance with the authorities set out in the firm's by-laws.

The **Managing Partner and Chief Executive** is responsible for leading and managing the firm's operations and has the authority to appoint a senior management team (the Executive) for approval by the Board.



Enhancing audit quality is an objective of the total firm, not just the audit practice. The Board and Executive work together to ensure that our commitment to quality is reinforced consistently across our entire leadership team and in our firm-wide messaging to our professionals.

**Glenn Ives**  
Chair

Candidates for the roles of Chair and Managing Partner and Chief Executive are recommended to the partners by an independent Leadership Nominating Committee composed of Board members and other partners of the firm. The committee conducts an extensive consultation process to obtain partners’ views about the desired attributes for the firm’s elected leaders and the attributes of specific candidates. The Leadership Nominating Committee then recommends one candidate to the partners, who must receive the support of at least 66-2/3 percent of all partners in a vote.

The Chair and Managing Partner and Chief Executive may be elected to two consecutive four-year terms in their respective positions. Each serves on the Board as full voting members for the duration of their terms.

**Deloitte Board of Directors (Canada)**

The Board is composed of the Chair, the Managing Partner and Chief Executive, and 17 elected partners. A partner representative of the Board of Directors of our U.S. member firm attends Board meetings as an ex officio observer. The General Counsel attends all board meetings.

Of the 17 partners elected by their peers to serve on the Board, 12 seats are reserved for regional nominees, and the remaining five seats are considered “at large.” All five services must be represented on the Board.

Every two years, the Board appoints an independent Elections Committee composed of a small group of partners who are ineligible to serve a full term on the Board (i.e., partners who are within four years of retirement). The Elections Committee conducts a two-stage nomination and election balloting process in accordance with the firm’s by-laws, and oversees the eligibility of partners to stand for nomination and subsequently be elected to the Board. The nominee with the highest number of votes for each open seat is elected to the Board. Board members are elected for four-year terms (staggered), and are limited to two consecutive terms.

The Board is responsible for overseeing the firm’s strategy and the performance of senior management, as well as reviewing and approving action on a variety of governance, operational and administrative matters.

**2016-2018 Board of Directors**

**Glenn Ives, Chair**

**Frank Vettese, Managing Partner and Chief Executive**

<b>Judith Bellehumeur</b> Montreal, Tax	<b>Charles Knight</b> Alberta, Financial Advisory	<b>Iseo Pasquali</b> Toronto, Financial Advisory
<b>Brian Brophy</b> Toronto, Tax	<b>Jean Lamy</b> Quebec region, Audit and Assurance	<b>Charles Perron</b> Ontario, Consulting
<b>Shelley Brown</b> British Columbia, Audit and Assurance	<b>Eddie Leschiutta</b> Montreal, Risk Advisory	<b>Heather Stockton</b> Toronto, Consulting
<b>Sippy Chhina</b> Alberta, Audit and Assurance	<b>Jorge Salgueiro</b> Deloitte U.S.	<b>Brigitte Vachon</b> Montreal, Audit and Assurance



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**Glenn Ives, Chair**

**Frank Vettese, Managing Partner and Chief Executive**

**Bill Currie**

Toronto, Consulting

**Michael McFaul**

Ontario, Consulting

**Cathy Warner**

Prairies, Audit and Assurance

**Edgardo Hernandez**

Chile, Audit and Assurance

**Trevor Nakka**

Atlantic, Audit and Assurance

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**Deloitte Executive Team**

**Frank Vettese**

Managing Partner and Chief Executive

**Janet Lewell**

Managing Partner, Finance, and Chief Financial Officer

**Carl Allegretti**

Canadian Tax Leader

**Richard Olfert**

Managing Partner, Regulatory, Quality and Risk

**Linda Blair**

Managing Partner, Ontario

**Carol Paradine**

Managing Partner, Leadership Development and Succession

**Ryan Brain**

Managing Partner, Toronto

**Marc Perron**

Managing Partner, Quebec

**Etienne Bruson**

Managing Partner, British Columbia

**Jorge Rodriguez**

Managing Partner, Chile

**Tim Christmann**

Managing Partner, Consulting

**Nathalie Tessier**

Managing Partner, Audit and Assurance

**Guy Cogan**

Chief Strategy Officer

**Anthony Viel**

Managing Partner, Financial Advisory

**Mat Harris**

Managing Partner, Atlantic

**Blaine Woodcock**

Chief of Staff

**David Keddy**

Managing Partner, Growth and International Investments

**Miyo Yamashita**

Managing Partner, Talent

**Chris Lee**

Managing Partner, Prairies

**Van Zorbas**

Managing Partner, Risk Advisory

### The Deloitte Audit and Assurance Practice

The Audit and Assurance practice is an integral part of Deloitte through which the firm provides audit and other assurance and advisory services to clients. While the practice must regularly respond to changes and challenges occurring in the accounting profession and business environment, it remains focused on continually enhancing audit quality.

#### Audit and Assurance Practice Senior Leadership Team (Canada)

Our Audit and Assurance practice is led by a Managing Partner, Audit and Assurance, who is appointed by the firm’s Managing Partner and Chief Executive and approved by the Board.

The Managing Partner, Audit and Assurance appoints an Audit and Assurance senior leadership team to develop a strategy for the Audit and Assurance practice and oversees its implementation, including all related policies and procedures. In all of its activities, the team is responsible for the overarching objective of audit quality, including compliance with applicable professional standards and regulatory requirements.



Our audit leadership team is fully committed to consistently enhancing quality.

**Nathalie Tessier**  
Managing Partner, Audit and Assurance

#### Audit Practice Senior Leadership Team

##### Audit and Assurance Executive Committee

**Nathalie Tessier**  
Managing Partner, Audit and Assurance

**Mark Wayland**  
National Service Leader, Audit Private

**Tony Cocuzzo**  
National Service Leader, Audit Public

**Bruce Chin**  
National Service Leader, Audit Advisory

**Sue Bennett**  
Managing Partner, National Office

**Adam Burke**  
Partner, Strategic Growth

**Diana Bartolic**  
Partner, Talent

**Jennifer Sheeran-Isenor**  
Deputy COO

**Nicole Homick**  
Operations Lead

##### Audit and Assurance Operations Committee

**Nathalie Tessier**  
Managing Partner, Audit and Advisory

**Jennifer Sheeran-Isenor**  
Deputy COO

**Diana Bartolic**  
Partner, Talent

**Nicole Homick**  
Operations Lead

Service

Regional Service Leaders

##### Audit Public

**Beverly Pao**  
West

**Tony Cocuzzo/Sean Morrison**  
Central

**Angelo Bracaglia**  
Prairies

**Robert Nardi**

**Martin Colossi**  
Chile

East

**Audit Practice Senior Leadership Team**

<b>Audit Private</b>	<b>Mike Brankston</b> West	<b>Nancy Ewings</b> Central
	<b>Marc Joiner</b> Prairies	<b>Marc Beaulieu</b> Quebec
	<b>Sherry Walsh</b> Atlantic	<b>Julio Valenzuela</b> Chile
<b>Audit Advisory</b>	<b>Kari Lockhart</b> West	<b>Hitesh Peshavaria</b> Central
	<b>Jason Novakovski</b> Prairies	<b>Robert Nardi</b> East
	<b>Robert Espinoza</b> Chile	
<b>Others</b>		
<b>Sean Haggerty</b> Market	<b>Claire Harrington</b> Programs, Program Management Office (PMO) and Initiatives	
<b>Dermot McKeown</b> Finance	<b>Steve Irvine</b> Chile	

**Canadian Audit Quality Board**

Deloitte is committed to strengthening audit quality and instilling confidence in financial reporting. Achieving the highest levels of audit quality is a journey that requires commitment, accountability, discipline and excellence at all levels of our organization, starting at and led from the top. It is also a process of continuous enhancement, requiring regular checkpoints to assess progress and, when necessary, adjust course.

The development and execution of our annual Audit Quality Plan is the responsibility of the Managing Partner, Audit and Assurance with oversight from the firm’s Canadian Audit Quality Board (CAQB), which is chaired by the Managing Partner, Regulatory, Quality and Risk. The CAQB is composed of client-serving audit partners, National Office Assurance/Audit Quality partners, the Managing Partner, Audit and Assurance and a representative of DTTL’s Global Center of Excellence for Audit Quality. The CAQB meets regularly to assess our progress in executing our annual Audit Quality Plan, to challenge the design of Audit Quality programs and to anticipate future developments that will affect audit quality.



Quality is top priority, and we continuously strive to enhance our audit methodology and the professional skills of our people.

**Richard Olfert**  
Managing Partner, Regulatory, Quality and Risk

### Audit Quality Plan

The auditing profession and business climate are undergoing unprecedented changes and challenges, and Deloitte’s Audit and Assurance practice is evolving in response to these developments. The basis of continuous improvement in audit quality is our annual Audit Quality Plan. Each year, we develop an Audit Quality Plan based on internal analyses, the findings of external inspection results, expected upcoming audit quality developments and the development of new strategies to continue advancing audit quality. Our Audit Quality Plan includes various actions and activities to advance audit quality and enable us to monitor and assess the effectiveness of our quality activities.



## Internal quality control system

At Deloitte, quality is our top priority and our firm has implemented policies and procedures to foster a culture based on quality. We believe that professional excellence is the foundation for achieving consistently outstanding audit quality.

We believe there are three essential dimensions to meeting our audit quality objectives.

First, there must be strong central leadership to structure, manage and resource our audit practice so it successfully achieves audit quality.

Second, individual audit engagements must be executed in accordance with professional standards and firm policies.

Third, there must be a quality control system for our audit and other professional engagements. An overview of our firm's quality control policies and procedures are discussed in the following sections:

- Leadership responsibilities for the system of quality control
- Ethical requirements
- Client and engagement acceptance and continuance
- Engagement performance
- Human resources, and
- Monitoring

### **Leadership responsibilities for the system of quality control**

Deloitte has implemented policies and procedures to promote an internal culture that emphasizes quality as our number one priority. While the firm's leadership assumes the ultimate responsibility for our system of quality control, a Managing Partner, Regulatory, Quality and Risk has been appointed to take operational responsibility for the firm's quality control system.

### **Ethical requirements**

#### **Ethics**

At Deloitte, our ethical principles define the behaviours expected of the firm's partners, professional staff and support staff. These principles, together with firm policies and professional/regulatory requirements, form the basis of the firm's Code of Conduct. Our Code of Conduct is aligned with the requirements set out in Parts A and B of the Code of Ethics for Professional Accountants (the "International Code of Ethics"), issued by the International Ethics Standards Board for Accountants, a standard-setting body of the International Federation of Accountants.

We developed our Code of Conduct to help our people maintain the highest standards of professional and business conduct. Compliance with our Code of Conduct is a condition of employment, which reflects the importance we place on personal integrity and ethical behaviour in our firm. All partners, professional staff, and support staff are required to confirm annually that they have read and understood the Code of Conduct and their responsibility to comply with it.

The firm's Code of Conduct is overseen by an Ethics Officer who is an experienced partner who has direct access to the firm's Managing Partner and Chief Executive and the firm's Board of Directors.

The firm provides communication channels (including an independent third party reporting line) through which partners, professional staff and support staff can consult on and report ethical issues and situations. The firm's commitment to ethics and integrity is reinforced through communication tools, learning programs, compliance processes and measurement systems.

### **Independence**

Deloitte has established policies and procedures relating to professional and personal independence. These policies and procedures are based on the Code of Ethics for Professional Conduct, and are enhanced, as appropriate, to reflect local standards or DTTL policies that may be more restrictive.

Deloitte's system of quality control related to independence includes:

- Independence policies and procedures
- Compliance business process tools, including the Deloitte Entity Search and Compliance (DESC) system, the Global Independence Monitoring System (GIMS), Confirmations, and Consultation
- Business relationship assessments and monitoring
- Independence learning
- Monitoring of independence systems and controls relating to personal independence, and engagement and practice reviews
- Disciplinary measures and actions
- Assignment of responsibility for independence systems and controls, and
- "Tone-at-the-top" culture relating to independence

### **Independence policies and procedures**

Deloitte's independence policies and procedures cover the firm, its partners, professional staff, support staff and, where applicable, their relatives. These policies and procedures are either the same or more restrictive than the independence standards set out in the International Code of Ethics, and contain specific independence requirements that are applicable when the firm is required to maintain independence with respect to an audit client (restricted entity) and its affiliates.

Deloitte's independence policies require the firm, and its partners and professional staff to determine, among other things, whether an entity is a



Compliance with the Code of Conduct is a condition of employment which reflects the importance we place on personal integrity and ethical behavior in our firm.

restricted entity before the firm, a partner or a professional staff member (including their spouses, spousal equivalents, and dependents) engage in certain transactions with that entity. To facilitate this process, the firm and its partners and managerial personnel enter their financial interests and securities accounts into the GIMS tracking system. GIMS enables an electronic review of financial interests and securities accounts to help identify independence restrictions that may affect the ability to hold such items.

The firm's independence policies and procedures are made available electronically to the firm's partners, professional staff and support staff, and updates to these policies and procedures are also communicated electronically to them. Additional independence-related materials are available on an independence website. We also routinely publish reminders on policy and other matters as part of our communications to confirm awareness and understanding of the independence policies and to highlight changes to entities that are internationally restricted. Various trainings are also provided to the service lines and engagement teams.

We have put policies and procedures in place at the engagement level under which the audit engagement partner is required to consider independence matters during the course of an audit engagement and to communicate with the client's audit committee or those charged with governance, where required.

#### **Rotation procedures**

Partner rotation occurs on both a required and voluntary basis to address possible institutional familiarity threats. We maintain a rotation database that records the years that each partner spends on a reporting issuer audit engagement. For SEC registrants, Lead Audit Engagement Partners (LAEPs) and Engagement Quality Control Reviewers (EQCRs) are rotated every five years and these partners can only return to the same audit engagement after a five-year "cooling off" period. For Canadian reporting issuers, the LAEPs and EQCRs rotate every seven years and can only return to the same audit engagement after a five-year cooling off period. Other audit partners are also considered for rotation.

#### **Reporting by personnel of employment negotiations**

Our independence policies and procedures require our partners and professional staff to immediately report any offer of employment, or their pursuit of employment, with an audit client at the time they are providing professional services to that client. In these situations, the firm takes appropriate actions to mitigate a self-interest threat, which may include removing the individual from the engagement or having an engagement team member with the appropriate level of experience review the work performed by the individual.

### **DESC, GIMS and confirmations**

There are three key controls related to the independence of Deloitte and the personal independence of its partners, professional staff and support staff: DESC, GIMS, and the confirmation process. These controls support each other in that: (1) partners and professional staff search DESC (which includes a database of internationally restricted entities) to determine whether an entity, its financial interests or securities accounts are restricted; (2) partners and managerial personnel record their financial interests and securities accounts in their portfolios in GIMS; and (3) the firm periodically requires partners and staff to confirm their compliance with the firm's independence policies.



### **DESC**

DESC is operated by DTTL on behalf of its member firms. Each DTTL member firm reports the audit clients and their affiliates that meet the definition of an international restricted entity (public audit clients and other audit clients that may be of public interest), which are recorded in DESC. In FY18, certain private audit clients meeting specific criteria will be included in DESC. The entity information reported to DTTL is updated daily to help ensure that it is accurate and complete, with periodic validation processes performed by engagement teams and/or the DTTL member firms. Partners and professional staff access DESC online.

DESC includes features to request and document approvals related to providing services to an entity. In many jurisdictions, a restricted entity's audit committee or others charged with governance must preapprove the services to be delivered within the restricted entity group. DESC's features establish a standard business process among the DTTL member firms, whereby service requests are submitted to the Lead Client Service Partner (LCSP) who is responsible for obtaining and documenting appropriate authorizations prior to approving the service request.

### **GIMS for financial interests and brokerage accounts**

Each DTTL member firm identifies and reports publicly available financial interests and securities issued/offered by entities that are headquartered in that member firms' country in GIMS. DTTL operates GIMS on behalf of its member firms and each member firm administers the monitoring processes related to its partners and professional staff.

Before acquiring a financial interest in, or establishing a securities account with an entity, partners and professional staff search DESC and/or GIMS to determine whether any restrictions apply to them, their spouses, spousal equivalents and dependents (immediate family members). Partners and managerial personnel who enter into certain types of financial interests and accounts are required to enter this information into their individual GIMS portfolio for ongoing monitoring purposes.

We have established a GIMS support group to assist our partners and to substantially simplify the clearance of investments and accounts before they are made and entering them into GIMS. In addition, a newly created Broker Data Import Program (BDIP) enables partners, senior managers, managers and their immediate family members to authorize their holding



information to be automatically imported into GIMS from their respective brokerage firms.

GIMS enables the firm to identify situations that may not comply with Deloitte policies so they may be either reviewed or corrected. When such a situation is detected, the system advises the individual that an independence-impairing situation may exist, and poses questions to help the individual determine whether or not the item is permitted in their particular circumstances. This includes generating notices to the individual in situations where a once-permissible holding becomes newly restricted, so that appropriate and timely action can be taken. The firm monitors and follows up on such notices until the individual resolves the item.



### **Confirmations**

Deloitte obtains independence confirmations from professional staff and support staff when they join the firm and from partners before they are admitted to the partnership. Existing partners are required to confirm their independence when a change in their location or role may change their independence requirements. Annual confirmations are also obtained from all individuals and individuals with a GIMS account are required to complete a mid-year compliance confirmation as well.

### **Independence consultation network**

Deloitte communicates to its partners and employees the policies to be followed for consulting on independence matters and identifies the individuals who are to be contacted regarding those matters. Additionally, the firm may consult with DTTL's independence group and other member firms when additional input or advice would be beneficial.

### **Business relationships assessment and monitoring**

Deloitte has implemented a business relationships assessment and monitoring process. This process is designed to confirm that, prior to entering into any business relationship with a restricted entity or its management or substantial stockholders, such a relationship does not impair the firm's independence with respect to that entity.

Business relationships with other entities and non-standard fee arrangements often present independence complexities. Independence professionals provide consultation and guidance prior to entering into contractual obligations. As appropriate, they verify that such arrangements are reviewed and approved by the partner responsible for audit services to the client.



All Marketplace Business Relationships (MBRs) (except sponsorships, co-publishing and speaking engagements) must be cleared centrally with respect to independence before any formal contract with a relationship entity is initiated. Sponsorships, co-publishing and speaking engagements are evaluated to determine if a restricted entity is involved and restricted relationships must be cleared with the respective LCSP for that client. A resource management team, in coordination with National Office Independence, assists in the acceptance of a MBRs, including alliances, teaming, subcontracting, prime and reseller relationships, and independent contractors.

#### **Independence learning**

All partners and professional staff are required to complete the firm's comprehensive independence learning programs. While the content of these programs is based on our independence policies, the learning sessions are tailored to reflect current changes in the profession and the way in which our independence rules are applied to specific situations that may be encountered by our people.

#### **Monitoring of independence systems and controls relating to personal independence, and engagement and practice reviews** **Inspection of personal independence**

Deloitte periodically inspects for compliance with its independence policies and procedures to determine whether the information that partners and professional staff submit to GIMS related to their independence matters is accurate and complete. The frequency of these inspections is determined by the individual's level in the firm and the position the person holds.

#### **Inspection of firm's compliance**

Deloitte is subject to a practice review at intervals not to exceed three years, during which compliance with independence policies at both a firm level and at a client level is reviewed. Further information about

engagement and practice reviews is provided in the “Monitoring” section below.

**Inspection of advisory services**

Deloitte has established a program under which a sample of advisory engagements undertaken for audit clients is inspected to confirm that the engagements do not impact our independence; have been appropriately approved by the LCSP and the audit committee; and that the documented terms of the engagement are consistent with the deliverables.

**Inspection of the business relationships**

Deloitte has established a program under which a sample of our payables is inspected to confirm that the business relationships are identified and submitted for centralized clearance. In addition, relationships with vendors and other parties with whom we engage are regularly assessed to confirm that these business relationships do not impact our independence on any audit engagement. Deloitte has also established a program under which a sample of advisory services is inspected to identify any business relationships and confirm they were submitted for centralized clearance.

**Disciplinary measures and actions**

We have implemented disciplinary policies and procedures to address non-compliance with the firm’s independence policies and procedures. These policies and procedures are designed to provide an appropriate response to any breaches of our policies and procedures by partners, professional staff and support staff.

The disciplinary process includes inquiring about the situation with the affected individual and assessing that situation. Individuals facing disciplinary action have the right to put forward their position. Sanctions applied to individuals for breaching the firm's independence policies may include written reprimands, deferral of advancement within the firm, reduced performance ratings, monetary penalties and/or termination from Deloitte.



### **Assignment of responsibility for independence systems and controls**

A Director of Independence is responsible for implementing and maintaining quality controls over independence. The Director of Independence leads all significant independence issues within the firm, which includes implementing and maintaining the business processes concerning (1) independence consultations; (2) independence learning programs; (3) restricted entity information in DESC; (4) the use and monitoring of the features of DESC; (5) the use and monitoring of GIMS; (6) annual confirmations; (7) testing and inspection programs; and (8) disciplinary processes. Communication channels exist among the Director of Independence, firm management, and DTTL's independence group. The Director of Independence also communicates with the firm's senior leadership about the significant independence matters of relevance to the firm.

To support its member firms, DTTL provides access to a senior leader and DTTL independence team members to facilitate the independence function at the member firms.

### **“Tone-at-the-Top” culture relating to independence**

Deloitte’s leadership reinforces the importance of complying with independence and related quality control standards, thereby setting the appropriate “tone-at-the-top” and instilling independence into the professional values and culture of the firm. The firm’s strategies and procedures to communicate the importance of independence to partners, professional staff and support staff emphasize each individual’s responsibility to understand the independence requirements.

### **Conflicts of interest**

D TTL member firms have a large number of clients and Deloitte Canada provides various services to many clients. We have a professional duty to avoid conflicts in respect of a client’s affairs and to protect confidential client information. We have implemented policies and procedures to identify and consider potential conflicts of interest related to engagements and financial or business relationships that the firm has with a third party. We regularly check for and manage any conflicts that may arise on an ongoing basis throughout every engagement.

Our conflict checking system is designed to identify and manage potential conflicts, and is integrated with a global conflicts database to enable our team to work with their counterparts in other countries. When potential conflicts are identified, the Conflict Check group advises the engagement team on ways to address and manage the potential conflicts.

### **Client and engagement acceptance and continuance**

Deloitte has established policies and procedures for accepting any prospective client and engagement and assessing the related engagement risk.

Our assessment of the acceptability of an engagement includes considering the client and professional service risks based on the prospective client’s:

- Management characteristics and integrity
- Organization and management structure
- Nature of the business
- Business environment
- Financial results
- Business relationships and related parties, and
- Our prior knowledge of and experience with the entity



Our engagement risk assessment procedures identify related risks and provide a basis for tailoring our audit approach to address engagement-specific risks. Prior to accepting a client and/or engagement, we undertake a risk assessment to determine whether the risk associated with accepting the engagement is “normal,” “greater than normal,” or “much greater than normal.” The engagement risk assessment process requires us to obtain the approval of the recommending partner and the concurrence of at least one other partner before the firm may accept the client and the engagement. In addition, the decision to accept the appointment must be approved by the firm’s risk leaders when the engagement risk is assessed as “greater than normal” or “much greater than normal.”

Engagement risk assessments are an ongoing process. They begin during the engagement acceptance/continuation process and continue throughout the engagement. Risk assessment tools and programs are included in the audit approach and documentation to facilitate a comprehensive risk assessment when planning the audit after the engagement is accepted. Engagements that continue for more than one year are re-evaluated annually, based on the factors discussed above, to determine whether the firm should continue the engagement. In addition, whenever an entity undergoes a significant change (e.g., change in ownership or management, financial condition, or nature of entity’s business), we re-evaluate the engagement and whether it should be continued. Decisions to continue an engagement must be concurred by at least one other partner.

On international engagements, procedures for accepting and continuing an engagement are performed by the member firm. Deloitte Canada does not assume the acceptability of a client and/or the engagement solely because it has been referred from another member firm.



## Engagement performance

### Audit approach

Our audit approach is based on the International Standards on Auditing, issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants, and the auditing standards of the PCAOB reflected in our PCAOB Audit Approach Manual. Deloitte's audit approach provides policies, procedures and guidance to audit teams in the planning and performance of audit engagements. We utilize common documentation and enabling software technology to help ensure the audit approach is implemented consistently effectively and efficiently.

The main elements of our audit approach are described below:

### Understanding of the entity and its environment

To perform an effective audit, the engagement team must develop an understanding of the entity and its environment (including its internal control) and assess the risks of material misstatement at the financial statement and assertion level. Our engagement teams develop this understanding and assess the risks of material misstatement in a number of ways including:

- Analyzing financial information to identify trends and unusual balances
- Holding in-depth discussions with management and those charged with governance
- Considering the inherent nature of each financial statement component and the risks associated with that component
- Evaluating the design of relevant internal controls and determining if they have been implemented
- Assessing the extent to which technology is used in the financial reporting process, and
- Reviewing internal audit findings, if applicable

Information technology specialists may be involved in the audit engagement depending on the nature of the entity's information systems and the extent to which technology plays a role in the transaction processing and financial reporting processes.

### Audit procedures


Through a risk assessment process, engagement teams develop an audit plan to address the identified risks relating to the entity and the financial statements as a whole. Throughout the audit, engagement teams continually reassess risk and how audit findings bear on the audit procedures. The firm's audit approach allows partners and professional staff to modify the audit procedures when necessary to address issues that arise in the course of the audit.

Audit procedures to address risks of material misstatement include control testing procedures, substantive procedures (which comprise tests of details) and substantive analytical procedures. Where possible, these procedures leverage the use of innovative technologies, which allow the auditor to evaluate large data sets to pinpoint a response to the identified risk of material misstatement.


### Use of experts

Our clients regularly engage in transactions where they use the work of internal or external experts. In these situations, the audit engagement partner continues to be responsible for all aspects of the audit engagement, however there may be instances when the engagement team uses the work of management's experts or our own experts in our audit procedures in order to appropriately respond to risk.


In these instances, the engagement team evaluates whether the expert has the necessary competence, capabilities and objectivity. To determine whether or not an expert's work appropriately responds to the identified risk of material misstatement, the engagement team considers the:

- 
-  Source data used

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  -  Assumptions and methods used and, if appropriate, their consistency with those used in the prior period, and

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  -  Results of the expert's work in light of the engagement team's overall knowledge of the business and of the results of its audit procedures.
- 

### Engagement documentation

Deloitte has policies and procedures related to the retention of documents (in paper and electronic form), which address the confidentiality, safe custody, integrity, accessibility and irretrievability of archived documentation.

There are also specific policies and procedures governing the archiving of audit files. Audit engagement teams are required to submit the audit files for archiving within the period set out in applicable professional standards, regulatory and/or legal requirements. Processes also exist to support and monitor engagements teams' compliance with these policies.

### Engagement team supervision and reviews

The supervision of engagement team members and the review of documentation play an important role in the achievement of audit quality. Audit documentation must be reviewed by a member of the engagement team with more experience than the preparer. In some cases, elements of audit documentation may be reviewed by several team members.



### Engagement quality control reviews

Engagement quality control reviews are performed for audit and related assurance services. These reviews are performed by a partner or a manager who is not directly involved in the engagement, but who has the appropriate experience and knowledge about applicable standards and regulations, as well as the entity's industry, economic environment and accounting principles. For public interest entities and high-risk engagements, the review is performed by a partner with the experience and professional qualifications to act as an engagement partner on these types of audits.

The reviewer is responsible for performing an objective review of significant auditing, accounting and financial reporting matters; documenting the procedures the reviewer performed; and determining, based on all the relevant facts and circumstances of which the reviewer has knowledge, whether any matters have been identified that would cause the reviewer to believe that the significant judgments made and the conclusions reached by the engagement team were inappropriate in the circumstances.

### Special reviews

For engagements that exhibit characteristics that result a higher risk rating, a special review partner is assigned to provide an additional level of objectivity in planning and performing the engagement. The special review partner is independent of the engagement and normally possesses specialized industry and technical skills applicable to the engagement. In certain situations, the special review partner will be independent of the practice unit to enhance objectivity or to provide specialized resources.

### Consultation network and differences of opinions

Deloitte has a consultation network to assist engagement teams in resolving issues they have identified. These consultations include providing guidance on technical accounting and auditing questions regarding the application and interpretation of applicable standards, reporting issues or on any other matter pertaining to an audit engagement that requires specialized knowledge.

To facilitate the technical consultation process, Deloitte has a National accounting, auditing and securities consultation structure (see the discussion of Technical Groups below).

### Professional practice network

The firm's Professional Practice Network (PPN) is responsible for the initial implementation and ongoing monitoring of Deloitte's policies and operating standards. The PPN is involved in many of the quality control procedures related to audit engagements discussed below. It is led by the National Professional Practice Director (NPPD) who is responsible for maintaining an understanding of local operations and making resources easily accessible to the local engagement teams. The NPPD is supported by Professional Practice Directors across the practice.



An understanding of the entity and its environment (including its internal control) and an assessment of the risks of material misstatement at the financial statement and assertion level are important elements to performing an effective audit.

## Technical groups

Deloitte’s National Accounting, Assurance and Securities Groups provide accounting, auditing and regulatory guidance to engagement teams to assist them in resolving auditing, accounting and other matters. This national consultation network is organized by subject matter and is staffed with professionals with deep technical expertise in their subject areas:

- ✔ **National Accounting Group** – One of this group’s primary roles is to participate in accounting standard-setting processes, develop accounting implementation guidance and communicate financial reporting matters. It also responsible for developing and distributing the proprietary interpretive guidance on complex or emerging accounting issues.
- ✔ **National Assurance Group** – This group plays many important roles in the audit practice, which include participating in the auditing standard setting process, contributing regularly to our international audit approaches, and developing audit implementation guidance and materials in order for engagement teams to effectively address the auditing standards. It also is regularly consulted on complex issues as they arise relating to the interpretation and application of auditing standards.
- ✔ **National Securities Group** – This group supports engagement teams on securities related matters. It assists in reviewing financial statements and other documents to be filed with the securities exchange for compliance with filing requirements.



Deloitte’s National Accounting, Assurance and Securities Groups provide accounting, auditing and regulatory consultation services to engagement teams to assist them in resolving auditing, accounting and other matters.

## Human resources

### Hiring

Deloitte has set out policies and procedures governing the recruitment and retention of partners and professional staff. We actively seek individuals with the necessary competencies, capabilities and commitment to ethical principles necessary to:

- Perform engagements in accordance with professional standards and applicable legal and regulatory requirements, and
- Enable the firm to issue reports that are appropriate in the circumstances

When recruiting new staff members, we select candidates who are highly qualified graduates with the intellectual and personal qualities necessary to achieve and maintain high standards of professional competence. When hiring individuals at advanced levels, we seek candidates who possess the personal and professional characteristics, academic background and relevant work experience, or its equivalent, that are expected of our current employees in similar positions. All of our offers of employment are contingent upon satisfactory background and reference checks, and documentation is maintained related to the employment process and hiring decisions.

All of our new employees participate in a mandatory comprehensive onboarding process, which includes training in areas such as independence, ethics, privacy, quality and risk management practices.

Deloitte also actively seeks diversity among new employees because we believe that a variety of backgrounds and perspectives enhances audit quality and leads to better outcomes for our clients. We strive to see inclusion as a value that is woven into our culture and ingrained in our business goals and strategies. Every individual brings a unique contribution to our firm and inclusion gives them the ability to fully engage with our firm and bring their “whole self” to the workplace. The responsibility for the advancement and pursuit of inclusion is assigned directly to the firm’s Executive leadership team.

### **Advancement**

Deloitte has established policies and procedures governing the advancement of our people that are designed to ensure that professional staff members selected for advancement have the qualifications to fulfill the responsibilities they will be required to assume. These policies and procedures:

- Set out the professional staff levels within the firm and describe the related competencies required to perform effectively at each level
- Communicate to professional staff the required experience and performance qualifications for advancement to each level
- Set out procedures for periodic performance evaluations, and
- Provide a counseling program to help professional staff identify realistic career paths and develop action plans to realize their professional goals



### **Assignment of partners and professional staff to audit engagements**

The responsibility for each audit engagement is assigned to an audit engagement partner and we define and communicate the responsibilities for audit engagement partners to all of our partners. We also inform the client’s management team and those charged with governance at the client of the name and role of the audit engagement partner.

An engagement team ordinarily includes one or more audit engagement partners, audit managers, field seniors and audit staff depending on the size, nature, and complexity of the entity’s operations. Every audit engagement team is led and supervised by an audit engagement partner. The audit manager is responsible for the primary supervision and direction of the professional staff in executing the audit plan and performing the audit engagement. The field senior is responsible for the day-to-day supervision of the other members of the engagement team. Specialists and other experts are also involved with the audit as needed.

## Monitoring

### Striving for continuous quality enhancement

Deloitte's Audit Quality program supports the firm's practitioners in their pursuit of quality excellence. We recognize, however, that superior audit quality is a journey, not a destination. Advances in technology, regulatory developments, a changing business environment and many other factors continually present new opportunities to enhance the quality of our services. Our audit practice, including individual audit engagement files, are regularly monitored and inspected by us and by third parties, such as regulators and the provincial institutes of chartered professional accountants/chartered accountants. The objective of these reviews is to identify areas where audit quality may be enhanced, and when such opportunities are identified, we move quickly to implement them.

### Continuous reviews during engagements

Each year, we select a sample of engagements for in-process reviews of the planning and conduct of the engagements. These reviews are conducted by appointed reviewers independent of the engagement team to assess risk evaluation, audit plan formulation, details of planned audit testing and the evaluation of audit test results at an interim date.

Based on the matters identified, we make any necessary adjustments to the reviewed engagement. In addition, as multiple in-process reviews are undertaken concurrently on several engagements, any additional learning and guidance is provided to the practice on common areas for audit quality enhancement. We also aggregate our in-process review findings to determine if our annual Audit Quality Plan should be adjusted.

### Quality assurance review, as part of each engagement

In accordance with DTTL policies, our audit practice is subject to an annual quality assurance review, commonly referred to as a "practice review."

The annual practice review program covers several practice offices (and/or audit groups) each year. Every practice office (and/or audit group) is subject to a practice review at least once every three to four years. Audit and Assurance partners with engagement responsibilities ordinarily have a sample of their engagements reviewed at least once every three to four years. Consideration is also given to assessing the performance of managers, and candidates for partner nomination are normally included in the practice review prior to their expected admission to the partnership.

Deloitte Canada is responsible for conducting the practice review while DTTL provides guidance and oversight regarding practice review plans and procedures. The practice review program is coordinated and administered by the firm's practice review director, in conjunction with the DTTL regional practice review director.

Each year, the practice review plan, process, and results are reviewed and concurred by a partner from another member firm (the "external partner"). The external partner works closely with the firm's practice review director and the DTTL regional practice review director to oversee and challenge the planning and performance of the practice review.



### **Practice reviews of completed engagements**

The engagements selected for review include national engagements and inbound/outbound transnational engagements (i.e., audits of financial statements that are or may be used across national borders). When selecting engagements for review, the factors we consider include whether it is a first-year engagement, deteriorating financial conditions at a client and whether all major industries served are represented.

### **Scope of practice reviews**

Reviewers are chosen from regional or international pools or from other practice offices within the firm, based on their skill level, industry knowledge and experience.

The reviews of individual engagements consist of discussions with the partner and/or manager responsible for the engagement and a review of related reports and working papers.

Engagements are reviewed to:

- Determine whether quality control procedures have been properly applied
- Assess the adequacy of implementation of the audit approach, including compliance with the policies and procedures contained in the firm's policy manuals, and
- Monitor compliance

### **Results of practice reviews**

The findings and recommendations resulting from the practice reviews are included in the firm's Audit Quality Plan and presented to the firm's Managing Partner and Chief Executive Officer and other appropriate firm leaders. The Audit Quality Plan provides suggestions for enhancing quality related to the specific review findings, and to drive overall audit quality within the firm. These findings are addressed through a detailed action plan that sets out actions to be taken, identifies the person(s) responsible, and the timing for implementing the recommendations.

We communicate any deficiencies noted in the practice review and recommendations for appropriate remedial action to the relevant partner and other appropriate personnel. On an annual basis, we also communicate the results of the practice review and ongoing consideration and evaluation of its system of quality control to partners and other appropriate individuals in the firm.

### **Program and process reviews on our system of quality control**

Deloitte has a formal function to monitor and assess the design and implementation of our key audit quality programs and processes, and to provide independent oversight services to the Canadian Audit Quality Board (CAQB) to enable it to exercise its governance over audit quality. The function's mandate includes (1) assessing the effectiveness of audit quality initiatives; (2) recommending enhancements to audit quality initiatives; and (3) monitoring the development and implementation of enhancement action plans.

## Complaints and allegations

Deloitte has implemented policies and procedures to deal with complaints relating to work performed by the firm.




## External inspections

Deloitte is registered with the Canadian Public Accountability Board (CPAB) to perform audits of Canadian public companies and with the U.S. Public Company Accounting Oversight Board (PCAOB) to perform audits of U.S. public companies. Our firm is registered as third-country auditors with regulators in countries that are part of the European Union, European Economic Area and Asia. Our audit partners and professional staff members are also subject to the requirements of their applicable provincial professional bodies.

The regulators' role is critical to upholding the value of the profession and the public interest. We believe that their regulation and inspections reinforce our values, and help to strengthen our ability to serve our clients and discharge our professional role with distinction.

### External inspection processes

External inspection processes are conducted to assess and evaluate whether professional services are being performed in accordance with professional standards and that they result in high-quality audits. Our audit practice is subject to three primary types of external inspections:

-  Quality programs and the performance of public company audits are inspected by CPAB
-  Quality programs and the performance of SEC registrant audits or interoffice referral work performed for SEC registrants are inspected by the PCAOB, and
-  Audit, compilation, review and tax engagements are inspected by each provincial Institute of Chartered Professional Accountants/ Chartered Accountants.

### CPAB inspections

As the designated regulator of the public company auditing profession in Canada, CPAB has a central role in promoting audit quality. Deloitte supports and is committed to working with CPAB to strengthen the public trust and confidence in the integrity of independent audits. CPAB inspections focus on our compliance with auditing standards and independence requirements, and we believe this inspection process is essential to achieving our shared objective to enhance audit quality and serve the public interest.

Under CPAB's mandate, registered public accounting firms that conduct over 100 audits of Canadian reporting issuers are inspected annually. Consequently, Deloitte is inspected on an annual basis.

CPAB's annual inspection comprises a review of our quality control system, which includes our policies relating to human resources, learning,



CPAB inspections focus on our compliance with auditing standards and independence requirements, and we believe this inspection process is essential to achieving our shared objective to enhance audit quality and serve the public interest.



Our Audit Quality Plan is developed based on the findings and recommendations of our quality monitoring programs, including our in-process reviews, practice reviews, and the findings of external inspections.

independence and ethics. CPAB inspections also include a review of a sample of engagement files to assess whether engagement teams executed audits in accordance with both Deloitte policies and Canadian Auditing Standards.

CPAB does not inspect entire audit files but instead focuses on what the inspectors perceive to be higher-risk areas in the audit files they select for inspection. CPAB does not report on audit matters where auditors performed at, or above, required standards. As a result, CPAB's findings do not represent a balanced scorecard and cannot be extrapolated across the public company audit population as a whole.

At the conclusion of an engagement file inspection, CPAB may have verbal comments, findings or significant inspection findings. CPAB defines a significant inspection finding as a significant deficiency in the application of generally accepted auditing standards related to a material financial balance or transaction stream which results in the audit firm having to perform additional audit work in the current year to support the audit opinion and/or needing to make significant changes to its audit approach. CPAB requires the audit firm to respond in writing to all significant inspection findings.

Deloitte receives an annual report from CPAB summarizing its inspection findings. Our agreement with CPAB requires us to respond to this report and take appropriate action to address its recommendations within 180 days. Both the report and the findings arising from engagement inspections cannot be shared with anyone outside the firm under the terms of our agreement with CPAB, other than as provided under the CPAB Transparency Protocol that came into effect for inspections completed after March 1, 2014.

CPAB issues a public annual report that provides information about the audit risks and challenges in the inspection process. CPAB's public reports highlight systemic issues across inspections of audit firms and provide examples of mandatory recommendations that audit firms must implement to enhance audit quality. CPAB posts its public annual report on its website at [www.cpab-ccrc.ca](http://www.cpab-ccrc.ca).

### **CPAB Transparency Protocol**

In March 2014, CPAB issued a Protocol for Audit Firm Communication of CPAB Inspection Findings with Audit Committees. The Protocol's objective is to provide audit committees with relevant information to support them in overseeing and evaluating the external auditor. Other than communications with clients expressly permitted by the Protocol, Deloitte is prohibited from publicly disclosing information regarding its CPAB inspection findings.

The adoption and adherence to the Protocol is voluntary, however Deloitte has taken a position that we will participate fully and comply with all aspects of the Protocol. The practices and procedures we develop to comply with the Protocol will include the flexibility to tailor our approach to

accommodate the needs and expectations of each reporting issuer's audit committee.

### **Responses to CPAB 2016 Inspection Report and CPAB 2015 Public Report: Big Four Firm Inspections**

Deloitte is committed to enhancing audit quality and instilling confidence in financial reporting. To this end, and as required under professional standards, we have thoroughly considered the comments and concerns that were raised in CPAB's 2016 Inspection Report and CPAB's 2016 Public Report: Big Four Firm Inspections. We also assessed the extent to which we had already initiated actions to address those concerns and whether additional action may be necessary.

We monitor the results of any programs that we initiate and will continue to implement quality processes that we believe will enhance audit quality.

### **PCAOB inspections**

The PCAOB is required to perform a review of the foreign audit firms registered with it once every three years. Only registered firms may have their audit reports filed with the SEC, subject to certain limited exceptions. Because of the number and significance of SEC registrants audited in Canada, the PCAOB has performed annual inspections of the four largest accounting firms in Canada since 2010. The scope of the PCAOB inspections are similar to CPAB inspections and include evaluating specific audit engagements and quality control procedures.

At the conclusion of its inspections, the PCAOB issues a report, which includes a public and a non-public portion. The public portion of the inspection report provides an overview of the inspection procedures and relevant observations on certain engagements subject to inspection in that year. The PCAOB posts the public portion of its report on its website at [pcaobus.org](http://pcaobus.org).

The PCAOB considers the inspection findings included in the public portion of its report to represent audit deficiencies that may affect a firm's ability to support its previously expressed audit opinion. An inspected firm must assess whether these deficiencies affect its previously expressed audit opinions. The firm must also determine what, if any, corrective actions need to be taken, which may involve additional audit documentation, performance of additional audit procedures or even reissuing an audit report.

### **Quality objectives and response to monitoring and inspections**








Our Audit Quality Plan is developed based on the findings and recommendations of our quality monitoring programs, including our in-process reviews, practice reviews, and the findings of external inspections.

We also communicate to our partners and other appropriate individuals in the firm information about the results of inspection reviews and the ongoing consideration and evaluation of its system of quality control.



## Public audit clients reported in European Union (EU) member states

Our relevant public audit clients<sup>2</sup> listed in EU member states as of May 31, 2017 are:

 Brookfield Asset Management Inc.	 Finning International Inc.
 Calgary and Edmonton Railway Company	 National Bank of Canada
 Canadian Overseas Petroleum Limited	 St. Lawrence and Ottawa Railway Company
 Canadian Pacific Railway Company	

## Continuing education of statutory auditors

### Professional development

Deloitte’s professional development program is designed to help partners and professional staff maintain and enhance their professional competence. To supplement on-the-job development, the firm provides formal continuing professional development programs in relevant subject areas.

Ongoing professional development is one of our highest priorities. We invest in an extensive professional education program, set rigorous continuing professional education requirements for all client service professionals, and monitor compliance with those requirements through an online learning portal. The overall purpose of our professional development program is to help our client service professionals maintain and enhance their professional competence so they have the skills and background needed to perform high-quality audits. In addition, our programs also focus on leadership development to ensure that, as people progress in their careers, they not only have the necessary technical and professional skills but also possess the “softer” interpersonal and leadership skills required to lead teams, engage stakeholders and work effectively with a range of clients.

All of our partners and professional staff are personally responsible for ensuring that their own continuing professional development and education is appropriate to their roles, responsibilities and professional

<sup>2</sup> Relevant audit clients generally include companies incorporated outside the EU/Europe Economic Area (EEA) whose transferable securities are admitted to trading on a regulated market of any Member State of the EU/EEA, with certain exceptions, as described in the Frequently Asked Questions (FAQ) Annexes to the Forms A and B (EU) Common Application Forms. Each of the EU Member States in which Deloitte LLP is registered defines relevant audit client in a similar manner.

requirements. In addition, the firm establishes minimum levels of continuing professional development to be undertaken by partners and professional staff within a specific period of time. These levels include a minimum of 20 hours of structured learning per year and 120 hours of structured learning in every three-year period (i.e., an average of 40 hours per year). To achieve these levels of development, the firm offers structured, formal learning programs, such as internal or external courses, seminars, or e-learning covering all areas of the competency model (e.g., shared competencies, function-specific technical competencies, and competencies in areas of specialization).

### Deloitte's learning curriculum

Deloitte's extensive professional development curriculum covers ethics, independence, core and advanced technical accounting and auditing matters, specialized industry matters, and a variety of business advisory and management programs.

Deloitte partners, senior managers, managers and professional staff attend intensive learning programs designed to build technical excellence and audit quality. The programs address current accounting, auditing, regulatory and professional ethics and independence issues, including key sources for guidance and consultation resources. They also include practical application exercises on current accounting and auditing issues, such as the exercise of professional judgment and the importance of professional skepticism.

Deloitte has adopted the DTTL Global Audit Learning Curriculum for International Standards on Auditing ("ISA"). We have also adopted the DTTL Global Center of Excellence (GCoE) Enhanced Learning Curriculum for PCAOB engagements for practitioners serving public company clients. The combined curriculum is designed to cultivate the skills and instill the behaviour and mind-set necessary for our professionals to execute high-quality audits under the PCAOB standards and ISAs, beginning at the staff level and building each year through to the partner level.

Our learning programs incorporate a number of pervasive themes across levels that provide the foundation for achieving audit quality. These themes include: audit documentation; the use of specialists; consultation; the detection of potential fraud; the importance of professional skepticism; and professional judgment. Individuals may customize their learning plan to include courses that address their personal development goals for broadening their skill sets and the firm's professional goals to address performance feedback.



## Financial information

Key statistics relating to the Deloitte Touche Tohmatsu Limited Network.

	<b>2017</b>
Revenues (USD in billions)	\$38.8
People	263,900
Countries and Territories	>150

Statistics are as of May 31, 2017.

### Revenue relating to Deloitte Canada<sup>3</sup>

The following provides revenues for Deloitte as of June 3, the end of our fiscal year.

<b>(CAD in millions)</b>	<b>2017</b>
Total revenues	\$2,300

**Note:** The accounting records of Deloitte are prepared based on Accounting Standards for Private Entities adjusted in a manner that management uses to operate the businesses and considers partner fairness.

### Deloitte audit practice compared to the total Canadian firm<sup>3</sup>

#### Personnel statistics

<b>Personnel</b>	<b>Audit practice 2017</b>	<b>Deloitte 2017</b>
Partners	321	957
Senior managers	317	1,203
Managers	289	1,226
Senior staff	793	2,573
Staff	753	1,633
<b>Client service professionals</b>	<b>2,473</b>	<b>7,592</b>
Administrative professionals	81	2,354
<b>Total personnel</b>	<b>2,554</b>	<b>9,947</b>

<sup>3</sup> As noted on pages 1 and 3, only information related to Deloitte LLP (Deloitte Canada) is presented.

## Partner remuneration

All income partners are compensated based on a fixed annual salary plus an annual variable payment amount that is determined based on their performance. All equity partners are compensated out of Deloitte Canada's distributable profits. The profits available for distribution are based on the results of the firm as a whole and are not allocated directly on the results of a particular service line or region. Partner compensation and earnings allocation are managed through the firm's Leadership Development and Reward (LDR) process.

The LDR process requires that, at the start of the fiscal year, partners set goals based on the expectations for their level, role and the firm's strategic objectives. Goals are to be set in areas such as quality, practice management and client service, leadership, community involvement and eminence, personal development and talent management and development. Each partner's goals are subject to review and input by the firm's senior leadership. At the end of the fiscal year, partners undergo a process that reviews their success in achieving their goals.

The LDR Committee of the Executive establishes the recommended compensation or earnings allocation for all partners except those on the Executive. This committee considers the perspectives of our businesses, regions, industries and talent teams. There is also thoughtful consideration of the quality performance of each partner as established through a comprehensive quality assessment process done under the direction of the Managing Partner, Regulatory, Quality and Risk. For audit partners, this quality assessment includes a consideration of a partner's performance as assessed through all monitoring and inspection processes.



To ensure that audit partners focus on their primary responsibility of providing audit services of the highest quality, Deloitte policies, consistent with Canadian regulations, forbid audit partners from receiving compensation, bonuses or other direct financial incentives for selling products or services to their audit clients other than audit, review or assurance-related services.

The LDR Committee's recommendations are approved by the Managing Partner and Chief Executive, who also recommends earnings allocation for the members of the Executive. The deliberations of the LDR Committee and the Managing Partner and Chief Executive are attended and overseen by members of the Board's LDR and Talent Committee.

The Board's LDR and Talent Committee is also responsible for reviewing performance and recommending earnings allocation for the Chair and the Managing Partner and Chief Executive Officer. The recommendations for partner compensation and earnings allocation for all partners are then presented by the LDR and Talent Committee to the Board of Directors for final approval.

# Deloitte.

**[www.deloitte.ca](http://www.deloitte.ca)**

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